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# DRUG STORE NEWS®

Vol. 8/No. 17 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. August 4, 1986

**Dart plans to open 10 new stores a year over the next three years in Greater Washington, nearly half in a downsized format similar to its high-style 5,000-sq.-ft. prototype at 20th and L Streets.**

## Dart capitalizes on new format

By Al Heller

LANDOVER, Md. — The 5,000-sq.-ft. prototype used by Dart Drug Stores to penetrate downtown Washington is fast becoming one of its most profitable units in this market.

The downsized format is a far cry from the 45,000-sq.-ft. drug and home center stores that gave Dart its earlier image—in merchandising techniques and assortments, but most importantly, in flexible locations.

The store is high fashion in gray and maroon, with glass shelving and neon and baffled lights. The compact format has "opened new vistas as to where we can go. We can fit a store anywhere we want now," senior vp-operations Robert Goldstein told *Drug Store News* during a recent tour of the market.

That will increasingly be downtown, where office worker density translates into high walk-in traffic and sales of $500 per square foot. Dart will be in inner-city neighborhoods, too, said chairman Stephen Hansbrough, who wants to position Dart as "the hometown chain."

However, Peoples now outstores everyone in the market with 150 stores in Greater Washington, including 36 in and around the capital. Gray Drug Fair, which is up for sale, has about 100 stores here, and Dart, 82.

But Dart and Peoples run neck and neck for volume leadership in the market, each with about a 25% share, according to recent *Drug Store News* research.

Dart said it hopes to add 10 stores a year over the next three years, raising store count nearly 40% to about 110. Over the next six years, said Goldstein, Dart hopes to open

*See* **Dart,** *page 33*

## Sherwin-Williams to paint Gray out of its future

CLEVELAND — After five years of clinging to the Gray Drug Fair roller coaster, Sherwin-Williams has finally decided to jump off.

The successful paint manufacturing and retailing company said it was abandoning its long efforts to turn around the troubled drug chain, and was now open to offers.

"It better serves our long-term interest from a strategic point of view," said John G. Breen, Sherwin-Williams chairman. "We'll concentrate on our coatings and coatings-related business as opposed to deploying our resources into two legs of business."

Speculation about possible buyers for the chain's 450 stores focused on drug chains with deep pockets, including Peoples, Rite Aid, Walgreens and Osco, as well as on K mart and Kroger. Industry sources also did not rule out a leveraged buyout by management, although that possibility seemed remote.

The consensus was that Peoples stands the most to gain by the acquisition. The Alexandria, Va.-based chain has a strong penetration in the mid-Atlantic states and the Midwest, where Gray Drug Fair's strength lies, and a growing presence in Florida, where Gray operates 79 stores. Peoples also has the resources and the management

*See* **Gray,** *page 32*

*Pharm-Escomptes eyes New England*

## Canadian co. expanding to U.S.

MONTREAL — Pharm-Escomptes Jean Coutu, Quebec's largest drug retailer, is leaping over the border with a new deep discount store chain.

Pharm-Escomptes announced plans to build its own American-style, low-price drug chain in unnamed Northeastern markets through a new U.S. subsidiary. With the goal to roll out as many as 10 stores a year, the Canadian chain is bidding to become a major regional deep discount player.

The stores will be patterned after Drug Emporium and Freddy's in merchandise mix and operations, said Michel Coutu, a Pharm-Escomptes adviser and planner.

The venture follows two years in which the 100-store chain has unsuccessfully sought to break into the U.S. market through an acquisition, said Coutu.

"We tried to buy a chain, but there was nothing for sale. We decided there is nothing even close to what we wanted," said Coutu.

The chain had looked to acquire a business complete with management as its first vehicle in the United States.

*See* **Canadian,** *page 33*

### Kroger to sell all or part of drug biz

CINCINNATI — Kroger Co. announced it will sell or partly divest its drug store division, in a corporate restructure to emphasize growth through food/drug combos.

Kroger chairman Lyle Everingham said alternatives for the 540-store SupeRx and 320-store Hook Drug chains include a spinoff, creating a new company without Kroger ownership, or a partial divestiture.

The supermarket company is repositioning the drug division because it hasn't been meeting profit goals, said Paul Bernish, a Kroger spokesman.

The reorganization will include selling 100 underperforming Kroger supermarkets scattered among all divisions and cutting corporate expenses 25% through voluntary early retirement.

### Safeway breakup inevitable?

LANDOVER, Md. — A breakup of Safeway Stores looked inevitable after the Dart Group underlined its desire to buy the food retailer with a $64 per share offer for a friendly merger.

Retail analysts said at presstime that Safeway might continue to resist Dart by selling off one of its profitable foreign divisions, or stores in weak markets, to raise money to buy back stock and pay off Dart.

The Dart Group similarly would be forced to divest parts of Safeway to cover the large debt it will incur if its leveraged buyout succeeds.

Dart's latest offer is a $360 million increase from its initial $58 per share tender offer of $3.54 billion.

## Revco:Bloodletting stopped

By Dave Vaczek

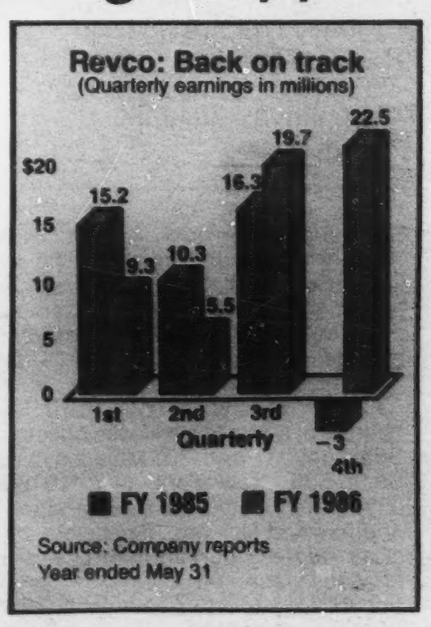
TWINSBURG, Ohio — Revco is back.

The chain reported year-end earnings up 62%, as fourth-quarter results added force to a second-half recovery.

The 1986 fiscal year rebound—underlined by same-store sales growth of 8.5%—confirmed forecasts by Revco officers, who have been involved since March in a bid to acquire the 2,031-store chain through a leveraged buyout.

Net earnings from operations were up 36.6% in the

*See* **Revco,** *page 32*

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**NACDS merchandising** 34

0026934C DR
KEVIN KENDRICK
CONGRESSIONAL INFO SVC 14H
4520 EAST WEST HWY STE 800
BESTHESDA MD 20814

# Acquisition boosts FoxMeyer's role in South

JACKSONVILLE, Fla. — FoxMeyer will boost its presence in the Southeast and raise annual sales above this year's target of $2 billion by acquiring Lawrence Pharmaceuticals Inc., the Florida-rooted $200 million sales drug and H&BA wholesaler.

The estimated $35 million cash deal, which was proposed in a tentative pact last month, will give the Dallas-based wholesaler its first significant purchase in demographically promising Florida markets. FoxMeyer is continuing its fast-track agenda of building profits by buying market share, despite earlier stated plans to delay acquisitions until later in 1986.

"It gives us a great market and the right player in that market," said Lloyd Cahoun, FoxMeyer's vp-finance.

**Serves 1,300 independents**

Lawrence serves 1,300 independent drug stores in a trading area that includes North and South Carolina, Alabama, Georgia, Tennessee and Virginia.

Industry sources said the agreement calls for a premium price tag in excess of $35 million for all issued shares of the local private distributor.

Under president Lawrence DuBow, Lawrence Pharmaceuticals has been known as a well-run and innovative distributor. Lawrence Pharmaceuticals is a major supplier of K mart in Florida.

The pending buy confirms analysts' views that the April purchase of FoxMeyer by National Intergroup won't inhibit FoxMeyer's strategy of building profits through the acquisition of well-run independents. NI wants to use the business as its major growth vehicle.

FoxMeyer pounced after Lawrence Pharmaceuticals began discussing a sale with other potential owners, sources said.

**"Can't miss opportunities"**

"They can't miss opportunities because of the corporate reorganization going on at Intergroup," said Mark Felder, an analyst with the Legg, Mason, Wood, Walker Inc., brokerage house in Baltimore.

"The supply of high-quality regional independent distributors is dwindling. FoxMeyer intends to take a look at all the quality properties that are left," said Felder. The strategy is profit growth through acquisition in the short term, saving income growth by improving margins as a long-term objective.

Cahoun said less than 5% of FoxMeyer's current distribution network overlaps with Lawrence's, in central Tennessee and in the western Florida panhandle, which FoxMeyer services through its 80,000-sq.-ft. Slidell, La., warehouse.

FoxMeyer will be positioned to inject variety store merchandise from its 1,629-store Ben Franklin chain into the Lawrence distribution system to expand its merchandise offerings to retailers.

## Pay 'n Save's $352M stock offering sells out

SEATTLE — Pay 'n Save Inc. and its wholly owned subsidiary, PNS Inc., have sold out an expanded public offering, according to a spokesman for Drexel Burnham Lambert, managing underwriter for Pay 'n Save.

The original offering totaled $275 million. The new one is $352 million (3,250,000 shares of common stock at $16, or $52 million), plus $150 million in convertible debentures and $150 million in senior subordinated notes.

Proceeds of the sale will be used to acquire Bi-Mart ($84 million in cash) from Pay 'n Save subsidiary Seattle Standard Corp., as well as to reduce Pay 'n Save's debt and to finance a vastly expanded distribution system.

The public offering comes in the wake of two lawsuits filed by Pic 'N' Save: one against Drexel Burnham Lambert, seeking an injunction to nullify the sale of stock, debentures and notes; and the other against Pay 'n Save, seeking to halt the chain's use of the "Zimmerman merchandising strategy." (Bill Zimmerman, former Pic 'N' Save chairman, is now Pay 'n Save partner and chairman.)

In view of the legal action, some observers were puzzled that the public offering sold out.

An analyst in Seattle said: "Zimmerman's reputation is such that a lot of people are willing to bet on him. There is also a paternalistic feeling toward Pay 'n Save—it's a local name that's been around a long time, and most of the offering was sold in the Pacific Northwest."

## SDM tightens hold on Canada

TORONTO — The Shoppers Drug Mart agreement in principle to buy Super X Drugs Limited marks another step by the Canadian giant to raise its national market share from 28% to 32%-35%.

By adding Super X to its network, SDM builds its franchised operations from 450 stores to 526. Moreover, SDM heightens its Ontario presence without cannibalizing its stores in and around Toronto.

Super X is concentrated mostly in the western end of the province, enabling SDM to fill in where it hasn't had large store counts before. Chairman David Bloom cited other advantages to the pending takeover: the chance to broaden its health care services and lower prices selectively.

Super X will most likely operate as a separate division and maintain its current merchandising thrust, SDM said.

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Vol. 8, No. 17 August 4, 1986

# Shaw: Listen to the customer

*Retiring buyer offers tips to please shoppers*

DEERFIELD, Ill. — After 38 years with Walgreens—first as an apprentice pharmacist, then pharmacist, store manager, district manager and finally cosmetics buyer—Milt Shaw is retiring.

Shaw, described by colleagues and vendors as "one of the shrewdest buyers in the industry," was just out of the Navy and starting back to school when he joined Walgreens in 1948.

"I was going to be a pharmacist in those days," he recalls. "I didn't get into cosmetics for quite a few years."

**Became buyer in '77**

He became a cosmetics buyer in 1977, after working as a store manager and then district manager in New York and, later, Chicago.

"I was very interested in cosmetics," he remembers, "but, in a way, I was kind of forced into it, too—forced into learning it, I mean."

As Shaw tells it, in the early 1960's, when he was still a store manager in Yonkers, N.Y., his cosmetician had to have surgery. Her backup proved unsatisfactory, and Shaw wound up firing her.

"There was no one else there to do the job," he said. "So there I was, managing the store, filling prescriptions and handling the orders and the other details of being a cosmetician."

By the time he could get a good cosmetician again, he was hooked.

**Learned "the hard way"**

Shaw said he learned about cosmetics "the hard way, by just doing it.

However, "I had a lot of help, especially from the manufacturers' reps and especially from the Revlon sales rep, a man named Jim Roof."

Shaw remembers the reps walking through the ordering with him, and the inventorying of what was in the store. They'd go over the upcoming promotions and talk about the trends.

"One of the great lessons," he says, "was what to do so you would never be out of stock. You don't ever want a customer to come in and ask you for something that she knows you stock but that you can't give her when she wants it.

"Another key point was, don't ever compromise quality for price. If the price is there but not the quality, you might get that first sale but the customers will stop trusting you, and they might not come back.

"It's much harder to try to guess in advance what a customer might want from a new product or a new category just coming out. My belief is that the customer knows what they want, and when they see it on the market, they come and tell you about it."

Shaw says that when it comes to picking new products to stock, the best buyers he knows "rely on their experience and their judgment. Choosing a winner is always very subjective, but you can get an inkling of how the product may work by watching what the manufacturer plans to do for it, how serious they are about supporting it. And you can partly tell yourself by what you know of past successes or failures in similar situations."

**Promoted basics**

He took pride in promoting basics that competitors were neglecting.

"With Coty, for instance," he says, "we promoted the basic items like the face powder. No one else was doing any promoting on the line, but it was a natural. It was the No. 1 loose face powder in the world, and we could advertise it and not have to put it in a display or on an endcap, and the customers would just come in and look for it. It helped build our business and we didn't have to bang heads with any competitors because at the time, no one else was advertising it. It gave us an edge."

What Shaw figures he will miss most about Walgreens is the team spirit, the sense that each job is a collaboration of everyone.

**Saw chain grow**

Shaw saw Walgreens grow from several hundred stores to a chain of over a thousand

**Milt Shaw**

stores, doing over $3 billion a year in sales.

"As we've grown," he says, "we've become a company that reacts more rapidly. We look for change and we try to take advantage of it.

**'Be open-minded'**

"If a new buyer were to ask me now what I'd learned from my years as a buyer at Walgreens and what I'd pass on, I'd have to say this:

"One should be open-minded. You have to search out new opportunities. You also have to check on every statement that is made to you. You have to be sure that the information you're given when you're asked to buy something is correct.

"You also can't let personal prejudices affect your judgment. You don't buy just for your tastes. For instance, if I didn't like girls with two holes in each ear, that should not make me stop buying a set of earrings for those two holes.

"If it's something the customer wants, then we should search out every opportunity to give it to them."

Shaw plans to retire to California, near San Jose, where he will be close to two of his sons. He also has a third son and a daughter. Described by friends as a workaholic, he intends to mix some work, probably as a consultant, with "travel, reading, photography, listening to good music, and visiting with my family."

## Lubin to take over

*Drug Store News* has learned that Steve Lubin has been named to replace Milt Shaw as Walgreens' senior cosmetics buyer. Lubin most recently served as the chain's toys and sporting goods buyer.

FINANCIAL

# Analyst: Outlook is optimistic for second half

**By Jonathan H. Ziegler**

The long-awaited rebound in the economy has been postponed. Recent reports of employment growth and leading economic indicators now show that the second half will exhibit moderate growth (estimated at 2.5%), with the likelihood of a slight decline in corporate earnings.

**Financial Analysis**

Nevertheless, I remain optimistic about second-half prospects for food and drug retailing companies, as I'll explain below.

It would have been logical to presume that buoyant, if not boom, conditions would be upon us. After all, the combination of lower interest and inflation rates, depressed energy prices, an expansionary monetary policy, a lower dollar and very little letup in government spending should have provided adequate stimulation to the back half of '86.

Instead of an economic high, however, we continue to live with lethargy. For one thing, the projected scenario has not unfolded in the agricultural sector. Nor has excess operating capacity in the manufacturing sector made managers go out and increase capital spending, despite lower interest rates.

What happened, in fact, was that lower energy prices have made existing plants and equipment more economic. Furthermore, dropping energy prices have had a depressing effect on the country's energy belt. Finally, uncertainty over tax reform has brought a degree of caution to the nation's executive suites.

There are other factors that have put a crimp in the second half recovery prospects. One involves the trade deficit. The lower dollar may eventually have a positive impact on the trade deficit with Germany and Japan. But before that can happen, their domestic economies will have to be primed as well. In addition, whatever trading advantage we gain with these countries, we (and they) may lose with the rise of the newer trading partners of Korea and Taiwan, whose currencies are largely tied to the dollar.

Were this picture not bleak enough, the structure of the proposed tax reform policy will exert a drag on the economy this year before it provides a stimulus in 1987.

Having discussed what appears to be a cautious outlook, I remain optimistic. One reason is that consumers have been spending on big durable goods in the first half, but should be just about spent out. That is good news for the retailers of consumable goods, like drug stores and supermarkets. Increased spending in this sector should have a decidedly beneficial impact on same-store sales, which have been lackluster over the past year.

Moreover, last year managements became increasingly aware of the negative impact on sales growth caused by the slowdown in inflation and heavier competition. As a result, cost structures and inventory levels have largely been brought into line. What's more, the tough comparisons in same-store sales seem to be past.

Thus, I envision a leveraged impact on bottom line results. This should be buttressed by the ongoing programs of closing marginal units and the maturing of newly opened units.

*More financial news on p. 12*

Stable growth companies' results should compare favorably with the manufacturing sector of the economy. And positive operating comparisons should continue into the first half of 1987. The late 1987 period should then begin to benefit from the increase in consumer disposable income resulting from the tax cuts.

No discussion of the economic outlook should fail to mention inflation. Lower interest rates, expansionary monetary policy and budget deficits scare the Federal Reserve. However, no one in the industry that I talk to sees any sign of inflationary pressure during the balance of the year. In fact, the problem facing retailers is just the opposite: too little inflation. There is just too much product chasing too few buyers. Consequently, pricing pressures are intense, and continuing cost control efforts remain the essential ingredient in staying competitive.

*Jonathan H. Ziegler, a certified financial analyst, is a vice president of Sutro & Co., San Francisco.*

| Name | Symbol | STOCK PRICE From 07/03/86 - 07/16/86 High | Low | Close | Change Amt. | Change Pct. | 52-Week High | 52-Week Low | EARNINGS/SHARE Last Fiscal Year | Latest 12 Months vs Preceding 12 Months Change Amt. | Latest 12 Months vs Preceding 12 Months Change Pct. | P/E Latest P/E Ratio | DIVIDENDS Indicated Dvd. Rate Amt. | Indicated Dvd. Rate Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - | - | $ | $ | $ | $ | % | $ | $ | $ | $ | % | - | $ | % |
| **Chain Store transactions** | | | | | | | | | | | | | | |
| Am Stores | ASC | 70.38 | 64.50 | 65.50 | -5.13 | -7.26 | 71.25 | 53.13 | 4.11 | -1.33 q | -23.8 | 15.3 | .84 | 1.3 |
| Begley Co | BGLY | 23.00 | 22.50 | 23.00 | .25 | 1.10 | 23.50 | 15.50 | 1.27 | .01 f | .8 | 18.1 | .72 | 3.1 |
| Big B | BIGB | 17.88 | 16.75 | 17.38 | -1.00 | -5.44 | 18.75 | 12.63 | .61 | -.04 q | -5.7 | 26.3 | .00 | .0 |
| Drug Sys | DRGS | 7.50 | 6.88 | 7.13 | -.13 | -1.72 | 7.50 | 3.75 | -.43 | -.78 f | -100.0 | NE | .45 | 6.3 |
| Fay's Drug | FAY | 10.75 | 9.25 | 9.50 | -1.13 | -10.59 | 11.75 | 8.00 | .20 | -.50 q | -87.7 | NM | .20 | 2.1 |
| Genovese Drug | GDX | 14.50 | 13.63 | 14.38 | .00 | .00 | 15.00 | 9.63 | .73 | -.17 q | -19.1 | 20.0 | .20 | 1.4 |
| Longs Drg Strs | LDG | 36.00 | 31.25 | 32.75 | -2.25 | -6.43 | 38.75 | 24.75 | 1.74 | -.19 q | -9.9 | 18.9 | .76 | 2.3 |
| Medicare Glaser | MGCO | 5.00 | 3.50 | 4.75 | 1.00 | 26.67 | 5.00 | 3.50 | -.20 | -.25 f | -100.0 | NE | .00 | .0 |
| Medicine Shoppe | MSII | 31.25 | 29.00 | 29.00 | -2.50 | -7.94 | 32.00 | 21.00 | .84 | .14 s | 18.2 | 31.9 | .00 | .0 |
| Perry Drug | PDS | 20.38 | 17.75 | 18.13 | -2.00 | -9.94 | 20.88 | 12.75 | .98 | .14 * | 16.7 | 18.5 | .22 | 1.2 |
| Revco Drug | RDS | 37.13 | 34.88 | 35.25 | -2.13 | -5.69 | 39.88 | 23.50 | 1.06 | -1.01 n | -51.3 | 36.7 | .80 | 2.3 |
| Rite Aid Corp | RAD | 34.88 | 29.75 | 30.75 | -3.88 | -11.19 | 35.50 | 21.50 | 1.52 | .09 q | 5.6 | 18.2 | .58 | 1.9 |
| Thrifty Cp | TFD | 39.50 | 38.00 | 38.00 | -1.25 | -3.18 | 40.38 | 18.13 | 1.60 | .13 s | 8.6 | 23.0 | .64 | 1.7 |
| Walgreen Co | WAG | 39.00 | 35.50 | 36.00 | -3.13 | -7.99 | 39.50 | 22.50 | 1.53 | .14 n | 9.2 | 21.6 | .50 | 1.4 |
| **Wholesaler's transactions** | | | | | | | | | | | | | | |
| Alco Hlth | AAHS | 23.38 | 21.75 | 21.88 | -1.75 | -7.41 | 25.38 | 12.75 | 1.10 | 1.19 s | NC | 18.4 | .00 | .0 |
| Bergen Bruns | BBCA | 24.63 | 22.00 | 22.75 | -1.88 | -7.61 | 37.25 | 21.88 | 1.82 | -.26 n | -14.4 | 14.7 | .32 | 1.4 |
| Bindley Wstn | BIND | 12.50 | 11.63 | 12.00 | -.38 | -3.03 | 13.00 | 7.75 | .79 | .10 q | 13.2 | 14.0 | .00 | .0 |
| Cardinal Distrb | CDIC | 23.50 | 21.50 | 21.75 | -2.50 | -10.31 | 25.25 | 14.22 | 1.36 | .44 f | 47.8 | 16.0 | .08 | .4 |
| Durr Fillauer | DUFM | 16.25 | 14.88 | 15.13 | -1.00 | -6.20 | 16.75 | 9.25 | .78 | .01 q | 1.3 | 18.9 | .16 | 1.1 |
| Ketchum | KCH | 17.88 | 16.50 | 16.88 | -1.13 | -6.25 | 23.25 | 14.75 | .56 | -.01 n | -2.2 | 38.4 | .00 | .0 |
| McKesson Cp | MCK | 62.63 | 59.50 | 60.13 | -2.38 | -3.80 | 65.25 | 44.88 | 3.96 | .36 f | 10.0 | 15.2 | 2.40 | 4.0 |
| Moore Med | MMD | 24.25 | 21.75 | 22.25 | -1.63 | -6.81 | 25.00 | 15.75 | 1.45 | .29 q | 25.7 | 15.7 | .00 | .0 |
| Owens & Minor | OBOD | 17.50 | 15.75 | 15.75 | -2.00 | -11.27 | 20.25 | 13.38 | 1.14 | .10 q | 9.7 | 13.9 | .30 | 1.9 |
| **Manufacturer's transactions** | | | | | | | | | | | | | | |
| Abbott Labs | ABT | 54.63 | 47.50 | 48.13 | -6.13 | -11.29 | 55.00 | 26.44 | 1.94 | .32 s | 17.8 | 22.7 | .84 | 1.7 |
| Am Home Prod | AHP | 92.38 | 85.63 | 85.88 | -5.88 | -6.40 | 92.38 | 54.75 | 4.70 | .36 q | 8.1 | 17.8 | 3.10 | 3.6 |
| Baxter Travenol | BAX | 18.75 | 16.63 | 18.00 | -.50 | -2.70 | 21.25 | 12.38 | .85 | .48 q | 200.0 | 25.0 | .40 | 2.2 |
| Block Drugs Co | BLOCA | 26.00 | 25.50 | 25.50 | -.38 | -1.45 | 26.25 | 18.22 | 1.84 | .14 f | 8.2 | 13.9 | .50 | 2.0 |
| Bolar Pharm | BLR | 29.88 | 25.00 | 27.50 | -1.25 | -4.35 | 32.88 | 12.00 | .71 | .17 q | 26.2 | 33.5 | .05 | .2 |
| Bristol-Myers | BMY | 86.75 | 77.50 | 78.38 | -8.38 | -9.65 | 88.50 | 53.63 | 3.86 | .42 q | 11.8 | 19.7 | 2.20 | 2.8 |
| Carter-Wallace | CAR | 74.50 | 65.50 | 66.50 | -5.88 | -8.12 | 74.50 | 32.38 | 3.63 | .97 f | 36.5 | 18.3 | .60 | .9 |
| Forest Labs | FRX | 19.50 | 15.25 | 17.00 | -2.63 | -13.38 | 20.38 | 10.56 | .98 | .61 f | 164.9 | 17.3 | .00 | .0 |
| ICN Pharm | ICN | 18.00 | 14.13 | 17.50 | 2.00 | 12.90 | 18.00 | 8.50 | -2.10 | -2.20 s | -100.0 | NE | .00 | .0 |
| Lilly Eli Co | LLY | 82.00 | 72.50 | 74.00 | -8.25 | -10.03 | 83.50 | 40.50 | 3.69 | .27 q | 7.7 | 19.5 | 1.80 | 2.4 |
| Lee Pharm | LPH | 32.00 | 27.13 | 30.00 | -.50 | -1.64 | 32.75 | 5.63 | .40 | .27 s | 87.1 | 51.7 | .00 | .0 |
| Leiner P Nutri | PLIN | 21.00 | 19.50 | 20.25 | .00 | .00 | 21.00 | 8.25 | .81 | .03 f | 3.8 | 25.0 | .00 | .0 |
| Marion Labs | MKC | 47.25 | 38.25 | 39.50 | -7.63 | -16.18 | 49.63 | 15.63 | .47 | .22 n | 51.2 | 60.8 | .20 | .5 |
| Merck & Co | MRK | 103.50 | 97.50 | 98.88 | -4.75 | -4.58 | 105.88 | 51.75 | 3.79 | .57 q | 16.6 | 24.7 | 1.80 | 1.8 |
| Morton Thiokol | MTI | 37.88 | 34.75 | 34.88 | -2.38 | -6.38 | 40.50 | 30.00 | 2.50 | -2.66 n | -67.9 | 27.7 | .70 | 2.0 |
| Mylan Labs | MYL | 25.63 | 23.38 | 23.50 | -2.38 | -9.18 | 27.13 | 13.50 | .86 | .34 f | 65.4 | 27.3 | .10 | .4 |
| Newport Pharm | NWPH | 6.63 | 5.88 | 6.13 | -.50 | -7.55 | 14.50 | 5.88 | .05 | -.08 n | -100.0 | NE | .80 | 13.1 |
| Par Pharm | PARP | 17.50 | 16.63 | 17.00 | -1.25 | -6.85 | 21.88 | 14.25 | .47 | .01 s | 2.0 | 33.3 | .00 | .0 |
| Pfizer Inc | PFE | 72.75 | 64.00 | 65.25 | -7.50 | -10.31 | 72.88 | 43.75 | 3.44 | .35 q | 10.9 | 18.4 | 1.64 | 2.5 |
| Robins, AH | QRAH | 11.88 | 11.00 | 11.00 | -.63 | -5.38 | 19.13 | 5.50 | 2.53 | 20.78 q | NE | 4.3 | .00 | .0 |
| Rorer Group | ROR | 41.38 | 37.63 | 38.25 | -3.00 | -7.27 | 47.00 | 32.50 | 1.72 | -.21 q | -10.1 | 20.5 | 1.12 | 2.9 |
| Scherer RP Co | SCHC | 16.88 | 15.50 | 15.88 | -2.13 | -11.81 | 18.00 | 11.50 | -1.23 | -.80 f | NE | NE | .32 | 2.0 |
| Scher Plough | SGP | 88.00 | 78.75 | 80.13 | -7.63 | -8.69 | 88.00 | 45.00 | 3.77 | .43 q | 12.2 | 20.3 | 1.80 | 2.2 |
| Squibb Corp | SQB | 116.38 | 105.75 | 111.50 | -1.75 | -1.55 | 116.38 | 65.13 | 4.20 | .64 q | 17.0 | 25.3 | 2.00 | 1.8 |
| Sterling Drug | STY | 48.38 | 44.63 | 46.50 | -1.38 | -2.87 | 49.00 | 29.50 | 1.83 | -.51 q | -21.2 | 24.5 | 1.32 | 2.8 |
| Syntex Corp | SYN | 70.50 | 63.25 | 65.88 | -4.13 | -5.89 | 72.75 | 28.88 | 4.65 | 3.31 n | 160.7 | 12.3 | 1.20 | 1.8 |
| Thompson Med | TM | 17.75 | 12.75 | 13.38 | -4.25 | -24.11 | 21.00 | 11.75 | 1.18 | -.75 q | -39.5 | 11.6 | .40 | 3.0 |
| Upjohn Co | UPJ | 92.50 | 82.63 | 87.00 | -5.50 | -5.95 | 103.75 | 50.38 | 3.29 | .85 q | 32.6 | 25.1 | 1.52 | 1.7 |
| Warner-Lambrt | WLA | 62.38 | 57.75 | 58.75 | -3.63 | -5.81 | 63.13 | 33.75 | -4.05 | -6.83 q | -100.0 | NE | 1.56 | 2.7 |
| Zenith Labs | ZEN | 15.00 | 11.75 | 12.50 | -2.38 | -15.97 | 18.31 | 8.69 | .73 | .52 q | 216.7 | 16.4 | .05 | .4 |

All data are based on sources believed to be reliable, but its accuracy is not guaranteed.
Every effort will be made to correct errors, when discovered, in future issues.

**FOOTNOTES**

NA - Item not applicable to this type of stock.
NC - Data required for calculation currently incomplete in our files.
NE - Negative earnings invalidate calculations.
NM - No meaningful figure.
q - First quarter
s - First six months
n - First nine months
f - Fiscal year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

# Thrifty's sales rise 6.5% to $364M in third quarter

LOS ANGELES — On the eve of its acquisition by Pacific Lighting Corp., Thrifty Corp. announced record sales and earnings for the nine months ended May 31.

Net income for the third quarter increased 6.6% to $6 million, or 29¢ a share, from $5.6 million, or 28¢ a share, in the same period last year.

Sales for the quarter rose to $364.3 million from $341.9 million last year, a 6.5% gain.

Net income for the nine months was up 6.5% to $25 million, or $1.24 a share, from $23.5 million, or $1.18 a share, in the comparable period last year. Sales increased 5.8% to $1.10 billion from $1.04 billion.

Same-store sales for the nine months, reflecting the results of units open at least a year, increased 3.9% over the same period a year ago.

Thrifty said it had completed its acquisition of Guild Drug and has merged that company into its wholly owned subsidiary, Thrifty Jr. Inc., which now operates 27 drug stores, mainly in southern California.

Thrifty expects approval of its merger with Pacific Lighting at a special shareholders meeting on Aug. 5. As a result of that merger, Thrifty shareholders will become shareholders of Pacific Lighting. Every share of Thrifty stock will be exchanged for .802 of a share of Pacific Lighting.

# Stop & Shop's sales up

BOSTON — Stop & Shop reported higher sales but lower net earnings in the 16-week period ended May 24.

Corporate sales were up 17% to $1.14 billion, compared with $972 million a year earlier.

Net earnings fell to $3.9 million, down from $6.9 million in the same quarter a year ago.

The Stop & Shop supermarket division contributed heftily to the sales gain. The division's sales rose 9% to $586 million in the quarter, including a 4% same-store sales pickup.

# MERCHANDISING TRENDS

## Chains sharpen image as year-round source for home office needs

### *Add new focus on tax time*

Drug chains are wooing tax time customers with a new face and a new image as a year-round source for home office supplies.

Chains such as Perry, Kerr and Wellby are adopting new home office planograms, which often contain upgraded notebooks, desk accessories and file cabinets designed to appeal to the small-business man as well as the home office manager.

"We're trying to highlight our regular department as a place for people to come day in and day out, not just twice a year," said Mike Perkins, Wellby merchandising project specialist.

The "highlighting" by Wellby, Perry and Kerr involves keeping home office distinct from back-to-school through separate planograms, increased assortments and improved shelf design.

**Chains balance demands**

Drug stores, meanwhile, are upgrading selectively. Industry research shows the bulk of the home office market is accounted for by small businesses with fewer than 15 employees. In such areas as desk accessories, organizers and filing cabinets, chains balance the need to provide higher-end lines that businesses usually want with other customers' demand for low prices.

"The office products shopper is nowhere near as price-sensitive as Mom buying stuff for the kids. He is far more quality-conscious," said Paul Terry at Lion Office Products. Lion this year is emphasizing desk accessories, including a line of telephone list finders ($6-$20) and Lion Business Card File.

Walgreens is among chains picking up sku's in Eldon Office Products high-end Image 1500 line of desk accessories by carrying a paper clip dispenser and stamp dispenser, which Eldon is offering for the first time in retail packaging. Pay Less Drugs is adding two sizes in Eldon's new "The Notables" line of plastic note holders.

**Perry carves new section**

Perry upgraded in file cabinets, notebooks, and home filing chests as it rolled out a 32-ft. home office planogram in a 20-store test in May. The chain eliminated 32 ft. of toys in order to pair the new section with its 32-ft. back-to-school segment. Stores typically have carried 8 ft. of home office within this section, said Mike Thomas, Perry's stationery buyer.

While Mead continues to be Perry's major school supplies vendor, Perry's Thomas is adding 15 sku's of Stuart Hall's Executive line of notebooks to the new planogram and 4 ft. of Stuart Hall's Super Advanced notebook line. Perry will heavily promote the Executive line in January, Thomas said.

Meanwhile, Thomas is replacing 99¢ cardboard storage boxes with Fellowes' "Neat Idea" line of corrugated cardboard filing boxes priced from $4.99 to $9.99.

Perry is adding to the planogram Rockaway's nine-sku line of metal filing cabinets from $5.99 to $22.99, while running an in-and-out promotion on two-door metal cabinets the chain buys in Taiwan.

"Overall, the customers are willing to pay for a quality product," said Thomas.

Kerr this month unveiled a revamped 58-ft. back-to-school department, with 18 ft. for home office. The planogram includes a new merchandis-

*Continued on page 16*

**Rite Aid's Camp Hill, Pa., store draws attention to its home office department by pairing notebooks and file folders in wire racks with pegged accessories.**

### *Envelopes, pressure-sensitive products pace office supply sales*

(Manufacturers' shipments in million of dollars)

| Products | 1984 | 1983 |
|---|---|---|
| Stationery products | $1,027.1 | $ 958.6 |
| Envelopes | 2,109.8 | 1,827.4 |
| Pressure-sensitive products | 2,119.6 | 1,803.0 |
| Die-cut paper and paper board office supplies | 658.0 | 578.5 |
| Pens, mechanical pencils | 829.8 | 782.6 |
| Ballpoint and roller pens | 451.6 | 417.7 |
| Markers | 168.0 | 170.6 |
| Nonmechanical pens, crayons, chalk | 218.3 | 210.8 |
| Handstamps, stencils, marking devices | 254.6 | 230.6 |

Source: U.S. Bureau of the Census — Statistics are latest available

## *Skaggs-Alpha Beta gives greeting cards boutique setting*

High profile. Boutique. Department-within-a-department.

These are some of the terms used to describe the reconfiguration of greeting cards, a department in transition at a Skaggs-Alpha Beta.

The chain intends to boost sales of this high-margin category and related accessories: gifts, gift wrap, party supplies and novelties.

In its latest Salt Lake City store, Skaggs-Alpha Beta has switched greeting cards from an in-line location to a boutique-like presentation, 36 ft. long by 12 ft. wide, running perpendicular to the rest of the gondolas (left).

The department consists of six fixtures, side by side. Gift wrap is on end-caps (right).

**Fay's in Schenectady, N.Y., appeals to the needs of the home office manager by combining note cards, stationery and index card files with its selection of notebooks and envelopes.**

# Chains replanogram office supplies

*Continued from page 15*

ing system with tilted shelves and plexiglass partitions that increase shelf space by 10%-20% and should boost sales 20%, said buyer Graylon Johnson.

Kerr's planogram incorporates 4 ft. of metal filing cabinets by Esselte Pendaflex, which have been "sharp moving items on promotion" at $10 off the everyday $39.95 price, he said.

Kerr is also adding an electric pencil sharpener by Hunt to its three-sku assortment of manual sharpeners.

Johnson said consistently high year-round sales of office products provided the impetus for the replanograming. "Skyrocketing" sales of filler paper and notebooks partly result from competing mass merchandisers' inability to remain in stock, he said.

### Chains experiment

Drug chains continue to sell mid- to low-end merchandise lines successfully, including desk accessories and organizers, as they experiment with their assortments. "I don't really see us needing the high-end lines. Maybe we're still too new to realize what our potential is," noted Perry's Thomas.

Perry, for instance, is maintaining its assortment of Sterling Plastics accessories, which remain a popular selling line in drug stores with items at under $6. Thomas noted that many Perry customers are women "who want to run their households like a business," but without high cost merchandise.

Kerr is moving to Sterling this year, with 10 sku's in an upgrade from a five-sku assortment of desk trays from W. R. Rogers. Kerr is dropping Stuart Hall's Executive line, after finding it could improve sales with lower-priced private label notebooks it buys at a lower cost from Carolina Pad and Paper, Johnson said.

### Wellby planogram

Wellby's new home office planogram implemented this month limits exposure in such items as desk accessories, file cabinets, and bulk packaged goods like writing instruments and envelopes, which failed to perform last year. The chain's 18-ft. home office section within a 48-ft. stationery planogram reflects a "back-to-basics approach," catering to the college students and small home-operated businesses that the chain feels are its key customers, said Perkins.

"Consistently high year-round sales of office products provided the impetus for the replanograming. Skyrocketing sales of filler paper and notebooks partly result from competing mass merchandisers' inability to remain in stock."
**Graylon Johnson**
*stationery buyer, Kerr Drug Stores*

Wellby emphasized envelopes, stationery, computer accessories, and typewriter accessories in adding 46 new items to the planogram. "We haven't noticed a particular demand for desktop accessories and organizers," said Perkins, who is staying with a 12-sku Sterling Plastics assortment.

Part of Wellby's strategy is to reduce its promotional activity—and the markdowns incurred on unsold merchandise—by folding the best-sellers into a planogram that will appeal to the planned purchase all year. "We feel if an item is good enough to carry on promotion, it's probably good enough to carry every day," said Perkins.

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# Average indy '85 sales hit record high: Lilly Digest

INDIANAPOLIS — Sales for the average independent drug store reached a record high in 1985 with an increase of more than 3% over the previous year, but net profits dropped 7%.

According to preliminary results of the 1986 *Lilly Digest* report, the average community pharmacy achieved sales of more than $589,000. While this represents a gain of 3%-plus, the increase is much lower than the average yearly growth rate of 9% posted over the past 10 years.

**Scripts top other sales**

Prescriptions outpaced other sales with a healthy 6% increase, compared to a decline of 1.6% in front-end sales.

In the area of salaries, employees' wages declined both in dollars and as a per cent of sales. Although employees' salaries dropped over $500, to 10.1% of sales, from the previous year, the average proprietor's or manager's salary rose both in dollars (up $1,553) and as a per cent of sales (up to 5.9%).

In other expenses, rent advanced almost 6% in dollars but remained unchanged as a per cent of sales at 2.4%. Miscellaneous operating costs increased by about $2,700, up 4.2% from 1984.

Overall, net profit before taxes dropped over 7%, with the typical store down $1,217 from the 1984 figure. While

*See* **Indy,** *page 26*

***Lilly Digest reports latest community pharmacy trends***

| | 1985 | | 1984 | | Change | |
|---|---|---|---|---|---|---|
| *Avg. store sales* | *$* | *% of sales* | *$* | *% of sales* | *Amt.* | *%* |
| Prescriptions | $366,903 | 62.3% | $345,435 | 60.5% | +$21,468 | +6.2% |
| Other | 222,439 | 37.7 | 225,878 | 39.5 | − 3,439 | −1.6 |
| Total | 589,342 | 100.0 | 571,313 | 100.0 | + 18,029 | +3.2 |
| Gross Margin | 191,834 | 32.6 | 188,556 | 33.0 | + 3,278 | +1.7 |
| Net profit (before taxes) | 16,158 | 2.8 | 17,375 | 3.1 | − 1,217 | −7.5 |
| Total income* | 51,012 | 8.7 | 50,676 | 8.9 | + 336 | +0.7 |
| *Scripts* | *Number* | *% of total* | *Number* | *% of total* | *Number* | *% Change* |
| New | 13,513 | 48.5% | 13,975 | 48.6% | − 62 | −0.4% |
| Renewals | 14,193 | 50.6 | 14,801 | 51.4 | − 608 | −4.3 |
| Total | 27,717 | 100.0 | 28,776 | 100.0 | − 659 | −2.4 |

*Proprietor's salary plus net profit before taxes
Source: 1986 *Lilly Digest* preliminary results

*Tamperings spur industry*

# Rush is on for sealed caps

NEW YORK — Amid the latest attacks on medications sold in capsule form, the drug industry is scrambling to bring out capsules with new features that discourage tampering.

And, although the FDA and the Proprietary Association steadfastly maintain that capsules should not be banned, it appears that at least unsealed two-piece hard-shell capsules may become history within the next six months.

"There is definitely a trend toward sealed capsules," said Chuck Hoover, vp of Capsugel, the division of Warner-Lambert that produces two-piece hard-shell capsules. "Every drug company is also going through a product by product review to see if it is using the most secure packaging."

**Sealed capsules gain**

Manufacturers maintain that the sealed caps make it much harder to pull apart the capsule and reseal it without destroying the capsule. SmithKline Beckman has already announced it will be relaunching Contac and Teldrin in the sealed capsules, and Warner-Lambert will introduce Benadryl and Sinutab in sealed capsules "at some point," said Hoover.

But not all retailers are welcoming the addition of tamper-resistant sealed capsules. Eli Cohen, president of Duane Reade drug stores in New York, for example, is not receptive to the sealed capsules. "If an alternative is available, I'm taking the caplet or tablet over the capsules. I'm trying to stay away from capsules completely," he said.

*See related story, page 31*

Cohen believes the safety of caplets or tablets far outweighs the risks of carrying cap-

*See* **Sealed Caps,** *page 26*

# *FDA broadens requirements for reporting drug reactions*

ROCKVILLE, Md. — The Food and Drug Administration has broadened its requirements for reporting adverse drug reactions to include all marketed prescription drugs without approved new drug applications or abbreviated NDAs.

This new rule, scheduled to take effect in early September, will primarily affect manufacturers, packers and distributors of prescription drugs that were brought to market before 1938—at which time Congress set regulations requiring all new drugs to undergo FDA approval before being sold.

Approximately 4,000 pre-1938 prescription drugs remain on the market, and they include some commonly used products such as epinephrine, morphine, codeine, and vitamin products used in medical treatment.

**15-day period set**

Under the new rule, advanced by the FDA early in July, firms marketing any unapproved prescription drugs must report any "serious, unexpected" drug reaction or any "significant increase" in serious reactions to the FDA "as soon as possible, but in any case within 15 working days of initial receipt of information."

In addition to this so-called 15-day "alert report," a follow-up report must be submit-

*See* **FDA,** *page 25*

# Solving diversion problem should be joint effort

*Cohen's Capsules*

*Harold Cohen, R.Ph.*
*Pharmaceutical Editor*

When it comes to dispensing medication, consumer safety should be the pharmaceutical community's first priority.

For generations, patients have taken prescription medications without a second thought. That confidence came in part from a basic trust in the patient's pharmacist. Now, unfortunately, that respect has been tarnished by reports that began to surface about a year ago of pharmacists adulterating and selling samples or buying bags of diverted drugs without proper lot numbers.

Here we are, some six months later, and what has been done to re-establish that confidence and trust? The way I see it, very little. There has been lots of talk, but very little action.

One of the more positive steps was the elimination of two-tier pricing by a handful of pharmaceutical companies. But overall, the industry's attempts to control diversion have only begun to scratch the surface.

The war is still raging over drug sampling, and nothing has been done on unit-of-use packaging.

If you step back from the emotions that surround the diversion problem for a minute, I think you'll agree that, for the most part, it all boils down to one thing—economics.

The reason we are beginning to see two-tier pricing erode is because its elimination is probably one of the economically most palatable defenses against diversion.

But what about unit-of-use packaging and sampling?

Although both would deal serious injuries to diversion, I don't think they will inflict the fatal blow needed to be rid of diversion.

As I've said before in the this column, I'm in favor of substituting a coupon system for the current method of handing out samples. It would have a profound effect on diversion.

But as for government-mandated unit-of-use packaging for prescription drugs, my vote is nay.

I have to agree with NACDS, which opposes mandated or industrywide adoption of unit-of-use packaging. Adopting such a measure would add considerably to the nation's health bill as well as make millions of consumers strain their medical budgets even further.

Besides the high cost of unit-of-use, I agree with NACDS that such a move would "unnecessarily restrict the physician's flexibility in tailoring and prescribing the optimal course of therapy for the patient."

If a true solution to diversion is to be found, the economic burden must not fall entirely on the shoulders of the pharmaceutical community. The responsibility for bringing diversion under control must be shared by the government.

But whatever happens, it must be done soon because the pharmacist's reputation for trustworthiness is riding on it.

INSIDE PHARMACY

Rx/OTC news

# Trend is toward sealed caps

*Continued from page 23*

sules, even those with extra tamper-resistant features. "I would go along with all capsules being bought on prescription," he said, adding that caplets are just as easy to swallow as capsules.

Jeff Atkinson, vp-marketing for St. Louis-based Medicine Shoppe, disagrees. "We will definitely carry the sealed capsules as long as consumer demand exists," he said.

**Capsules big business**

Despite the different approaches retailers will take toward the new capsules, the three leading capsule makers, R. P. Scherer Corp., Eli Lilly and Warner-Lambert, are all introducing new capsules in an effort to dissuade manufacturers from abandoning their capsule lines. That's because capsules are a big business: Last year 100 billion medications in capsule form were sold worldwide. In the United States more than one-third of the 35 billion capsules sold last year were for over-the-counter medications, according to the Proprietary Association.

William Smith, general manager of Elanco Qualicaps, the division of Eli Lilly that manufactures two-piece hard-shell capsules, said many companies have already purchased a $187,000 Quali-Seal machine that welds the halves of the capsule together with a double band of gelatin rings. Smith declined to name the companies that purchased the equipment, but he said they included both ethical and over-the-counter drug makers like SmithKline Beckman.

**Sealing machine**

Lilly itself will use the machine to sell all of its capsule products by the end of the year, including its prescription medications, said Smith. Lilly's decision to switch its Rx line of capsules, he said, was "an expression of faith in the capsule dosage form."

Although prescription medicines have not yet been subject to tampering, the FDA is aware of at least one death from a tampered capsule sold only on prescription, according to *The Pink Sheet*, an industry newsletter. An FDA spokesman denied the report.

Warner-Lambert's Capsugel division, which last year rang up over $100 million in sales, is about six months behind Eli Lilly. Its machine, using a process called Licaps, is also capable of welding the capsule halves into a single unit with a double band of gelatin rings.

Finally, Scherer, the largest producer of soft-shell capsules, recently received FDA approval to package an asthma treatment, theophylline, in a newly improved version of its liquid-filled soft capsule. A Scherer spokesman said it was the first time a sustained-release delivery system would be available in a soft-shell capsule. He said that other single-ingredient products could be used with the new delivery system.

The Scherer spokesman said the one-piece capsules "have never been tampered with." Since the tampering incidents this year, he said, the soft-shell capsules "have been given more attention as an alternative delivery vehicle."

Despite the new tamper-resistant features available for sealing capsules, some drug companies will still produce the two-piece hard-shell capsules without the added features. A spokesman for American Home Products, makers of Anacin-3 and Dristan, among other OTC lines, said the company will add four tamper-resistant features to its packaging. "We have chosen to go with packaging, at least at this time," he said. "We believe there is no capsulating process that is completely tamper-proof."

## Average indy sales up in '85

*Continued from page 23*

the total income (proprietor's salary plus net profit before taxes) advanced to just over $51,000, or a 0.7% rise, it declined as a percentage of sales—8.7%.

The number of prescriptions filled in 1985 dropped 2.4%, mainly as a result of a decline in renewed prescriptions (down 4%). But while there was a slight drop in total prescriptions filled, prescription inventory rose from 10.5% to 10.6% of script income.

**Consumers paid more**

Consumers paid more for their prescriptions in 1985. The average prescription charge rose 8.8% to $13.05, an increase of $1.05 over the previous year.

The *Lilly Digest* also reported that the size of the average community pharmacy is increasing. The average store was approximately 2,600 sq. ft., an increase of 7.4%. But the extra space was not productive for the pharmacist.

According to the study, sales per square foot dropped about $7 (down to $222.14) for a 3.3% decline.

When broken down between the prescription department and other merchandise, the prescription department's sales productivity stayed about the same at $9.47 per stock dollar, as compared with $9.50 recorded in 1984. Other merchandise sales productivity also was relatively unchanged at $4.57.

Pharmacists are closing earlier, according to the digest. The average community pharmacy kept its doors open 61 hours per week, one hour less than the year before.

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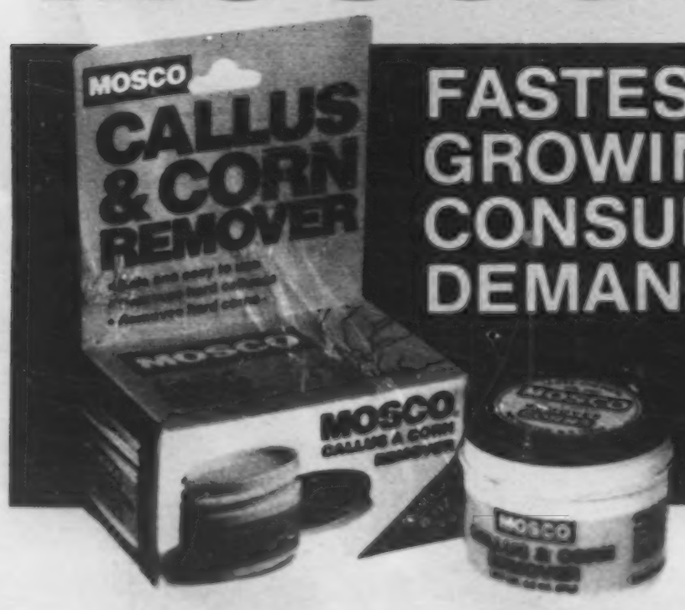


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